



# STATE OF IDAHO TAX UPDATE

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If you have questions about the articles in this issue of *Tax Update*, or if you need more information, contact the Idaho State Tax Commission.

## NEW TAX LAWS IMPACT BUSINESSES, INDIVIDUALS

The 2008 Idaho Legislature passed tax laws on everything from dental fillings to personal property. Here are some of the highlights:

**Withholding returns consolidated.** Employers will report their W-2 wage and tax statements and annual withholding reconciliation on a single return instead of two separate returns. The combined report is due on the last day of February. *Effective:* January 1, 2009

**Grocery credit to increase.** The income tax credit that offsets the sales tax on groceries is increasing in tax year 2008 to \$50 for Idaho residents whose taxable income is \$1,000 or less and \$30 for all other Idahoans. Seniors age 65 and older will get an additional \$20 on top of the credit increase. The credit will go up \$10 each tax year until it reaches \$100. *Effective:* January 1, 2008

**Idaho law conforms to Economic Stimulus Act of 2008.** New provisions to the federal Act increase the amount of depreciable assets that can be expensed under Internal Revenue Code (IRC) section 179 to \$250,000 for tax years beginning in 2008. Also, IRC section 168(k) allows a 50 percent bonus depreciation for qualified property purchased and placed in service during 2008. Amounts deducted as bonus depreciation don't qualify for the Idaho investment tax credit. *Effective:* January 1, 2008

**Businesses get partial personal property tax exemption.** Businesses get a personal property tax exemption of up to \$100,000 in each county. The exemption goes into effect when revenue to the general fund increases by five percent or more.

**Property tax on leased items exempt from sales tax.** Personal property tax charges added to the rents paid by someone who leases tangible personal property aren't subject to sales tax as long as the lease period is at least one year, and the property tax is separately stated. *Effective:* July 1, 2008

**Retailers with substantial nexus must collect sales tax.** A retailer with substantial nexus in this state must collect tax from its customers. "Substantial nexus" means having a franchisee or licensee operating under the retailer's trade name or owned by the same entity or corporation in Idaho. *Effective:* July 1, 2008

**Dental fillings exempt from sales tax.** Dental fillings have been added to the list of items exempt from sales tax under the medical exemption. *Effective:* July 1, 2008

**Tobacco products use tax imposed.** Those who buy tobacco products must pay a use tax on products bought from unlicensed sellers, such as Internet and catalog sellers. *Effective:* July 1, 2008

## HOLDING UNCLAIMED PROPERTY? REPORT IT TO THE STATE

If your business has ever had customers in Idaho or employees who are Idaho residents, you may be required to report unclaimed property to the state of Idaho. Unclaimed property includes stocks, bonds, mutual funds, bank accounts, uncashed payroll checks, utility deposits, traveler's checks, contents from deposit boxes, and other money that hasn't been claimed.



Each year, businesses must review their records to determine whether they have any unclaimed property. Idaho law requires them to try to locate owners of any unclaimed property with a value greater than \$50 and a last known address in Idaho.

Property becomes *unclaimed* when:

- there's been no owner-initiated activity for a certain amount of time, and
- attempts to locate the owner have failed.

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## UNCLAIMED PROPERTY

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Most property is considered abandoned if there's been no owner-initiated activity for five years. Wages and utility deposits become unclaimed after only one year.

Businesses must submit an annual report and transfer the property to the Tax Commission's Unclaimed Property Program by November 1. However, if businesses don't have unclaimed property, they shouldn't file a report. The reporting period is July 1

through June 30.

The Unclaimed Property Program mails reporting information to businesses in July. If you don't get the information, but have property to report, call 334-7623 in the Boise area or toll free at (800) 972-7660, ext. 7623 to get a reporting form. You can also file your report online at [tax.idaho.gov/filing.htm](http://tax.idaho.gov/filing.htm).

To learn more about unclaimed property, call us or visit [tax.idaho.gov](http://tax.idaho.gov) and click on "Unclaimed Property."

### EMPLOYERS

You can find the latest Idaho income tax withholding tables at [tax.idaho.gov](http://tax.idaho.gov) (click on "Updated Withholding Tables"). Also look for the tables in the revised version of *A Guide to Idaho Income Tax Withholding*, due to be released by the end of the year.

## SALES TAX ADVICE FOR CONTRACTORS

Many contractors who improve real property mistakenly charge sales tax to their customers. Sales tax should be charged on the *retail* sale of goods, not on a job that includes supplying and installing those goods into real property. This applies to contractors such as home remodelers and subcontractors who lay carpet or install windows, doors, wallboard, built-in appliances, and furnaces.

Beginning October 1, 2008, if a contractor charges sales tax

on improvements to real property, the Tax Commission will no longer accept the sales tax collected from the customer as a substitute for the tax the contractor owes on the purchase of contract materials.

How should contractors pay tax on purchases? They should pay their vendors the tax on the purchase price of the building materials or, when the vendor isn't registered in Idaho, pay a use tax directly to the Tax Commission.

Contractors who also have a retail business can buy materials for resale tax exempt and then pay a use tax to the state when they withdraw material from their retail inventory for an installation contract. Or they can pay a tax on all purchases and take a credit for

the tax paid on the cost of materials they later sell at retail.

The Tax Commission doesn't require contractors to absorb the cost of sales tax they pay to vendors. Rather, contractors can pass on that cost to their customers in the overall price of their services. All contractors who improve real property should bill home builders or other customers a charge that covers material, mark-up, other costs of doing business (including the sales tax paid on the retail purchase), labor, and profit. Using this method will lower the cost to the customer and prevent a sales tax liability for the contractor after a job is complete.

For more information, visit [tax.idaho.gov](http://tax.idaho.gov) and click on "News for Contractors Who Improve Real Property."



### FOR MORE INFORMATION

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Unless otherwise noted, information in *Tax Update* applies only to Idaho taxes. This newsletter is designed to provide general information only, and is not intended to offer comprehensive explanations of Idaho tax laws and rules. Specific questions should be addressed to the nearest Tax Commission office.

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